

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Market Dominant Product Prices
Inbound Market Dominant Multi-Service Agreements
with Foreign Postal Operators 1
Hongkong Post Group–United States Postal Service
Bilateral Agreement (MC2010-35)
Negotiated Service Agreement

Docket No. R2014-4

PUBLIC REPRESENTATIVE COMMENTS ON POSTAL SERVICE
NOTICE CONCERNING TYPE 2 RATE ADJUSTMENT
AND HONGKONG POST 2014 BILATERAL
NEGOTIATED SERVICE AGREEMENT

(January 10, 2014)

The Public Representative hereby provides comments pursuant to Order No. 1928.¹ In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service notice of a Type 2 rate adjustment in conjunction with a new market dominant international negotiated service agreement.² The Notice concerns the inbound portion of a bilateral agreement with the Hongkong Post Group (Hongkong Post 2014-2015 Agreement) to be included within the Inbound Market Dominant Multi-Service Agreement with Foreign Postal Operators 1 product, which is the successor to the Hongkong Post agreement previously found to be functionally equivalent to the Inbound Market-Dominant Multi-Service Agreements with Foreign Postal Operators 1 contracts and added to the market-dominant product list. Notice at 1. The inbound portion of the instant Agreement would set negotiated rates for various inbound small packets with delivery scanning. Order No. 1928 at 2.

¹ PRC Order No. 1928, Notice and Order Concerning Hongkong Post Negotiated Service Agreement, December 26, 2013.

² Notice of United States Postal Service of Type 2 Rate Adjustment, and Notice of Filing Functionally Equivalent Agreement, December 24, 2013 (Notice).

In Order No. 549, the Commission approved the Inbound Market Dominant Multi-Service Agreement with Foreign Postal Operators 1 product, and included the Strategic Bilateral Agreement between United States Postal Service and Koninklijke TNT Post BV and TNT Post PakketSERVICE Benelux BV (TNT Agreement) and the China Post Group—United States Postal Service Letter Post Bilateral Agreement (China Post 2010 Agreement) in the product.³ The Commission subsequently approved separate Postal Service notices seeking the addition of bilateral agreements with Hongkong Post and China Post to the Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product.⁴ The Commission also approved bilateral agreements with Singapore Post, Australia Post, Hongkong Post, and Canada Post for inclusion in the product.⁵

The Hongkong Post 2014-2015 Agreement, as noted above, is a successor to the existing Hongkong Post 2013 Agreement. Notice at 3. The negotiated rates in the Hongkong Post 2014-2015 Agreement are intended to become effective on March 1, 2014 and remain in effect for one year (March 1, 2015), unless terminated sooner. *Id.* at 3; Attachment 2, at 6.

The Postal Service asserts that the negotiated rates in the Hongkong Post 2014-2015 Agreement represent an “improvement over the default rates established under the Universal Postal Union (UPU) Acts for inbound Letter Post items.” *Id.* at 1. The

³ PRC Order No. 549, Order Adding Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 to the Market Dominant Product List and Approving Included Agreements, Docket Nos. MC2010-35, R2010-5, and R2010-6, September 30, 2010.

⁴ See PRC Order No. 700, Order Approving Rate Adjustment for HongKong Post—United States Postal Service Letter Post Bilateral Agreement Negotiated Service Agreement, Docket No. R2011-4, March 18, 2011 (Hongkong Post 2011 Agreement); see also PRC Order No. 871, Order concerning an Additional Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 Negotiated Service Agreement, PRC Docket No. R2011-7, September 23, 2011 (China Post 2011 Agreement).

⁵ See PRC Order No. 995, Order Approving Rate Adjustment for Singapore Post—United States Postal Service Letter Post Bilateral Agreement Negotiated Service Agreement, Docket No. R2012-1, November 23, 2011 (Singapore Post 2012 Agreement); PRC Order No. 996, Order Concerning an Additional Inbound Market Dominant Multi-Service Agreement with Foreign Postal Operators 1 Negotiated Service Agreement, Docket No. R2012-2, November 23, 2011 (Australia Post 2012 Agreement); PRC Order No. 1058, Order Approving Request to Include Hongkong Post Group Bilateral Agreement within an Existing Market Dominant Product, Docket No. R2012-4, December 20, 2011 (Hongkong Post 2012 Agreement); PRC Order No. 1078, Order Concerning Rate Adjustment for Bilateral Agreement with Canada Post Negotiated Service Agreement, Docket No. R2012-5, December 27, 2011 (Canada Post 2012 Agreement).

Postal Service also asserts that the Hongkong Post 2014-2015 Agreement is functionally equivalent to the agreements previously filed and included in the product grouping for Inbound Market-Dominant Multi-Service Agreements with Foreign Postal Operators 1 because it is very similar to the predecessor agreement between these same two parties insofar as it relates to inbound market dominant services. The main difference, according to the Postal Service, is that this agreement only provides market dominant rates for inbound small packets with delivery scanning, while the predecessor agreement also provided rates for inbound registered mail. There are additional differences which seem to be quite minor in nature. Therefore, the Postal Service requests that the Hongkong Post 2014-2015 Agreement be included within the Inbound Market Dominant Multi-Service Agreement with Foreign Postal Operators 1 product. *Id.* at 9.

COMMENTS

The Public Representative has reviewed the Postal Service's Notice, the Hongkong Post 2014-2015 Agreement and the supporting financial model filed under seal that accompanied the Notice. Based upon that review, the Public Representative concludes that the negotiated rates in the Hongkong Post 2014-2015 Agreement would improve the net financial position of the Postal Service and is functionally equivalent to the baseline Hongkong Post 2011 Agreement.

Statutory Criteria. The Postal Service states that pursuant 39 U.S.C. § 3622(c)(10), Commission review of a market dominant negotiated service agreement is to address three statutory criteria: whether such an agreement (1) improves the net financial position of the Postal Service or enhances the performance of operational functions, (2) will not cause unreasonable harm to the marketplace, and (3) will be available on public and reasonable terms to similarly situated mailers. *Id.* at 7 and 8. With respect to criteria (2) and (3), the Postal Service makes reasonable arguments that these criteria are not implicated by the inbound Hongkong Post 2014-2015 Agreement. *Id.* at 5-6, and 8.

With respect to criterion (1), the Public Representative concludes that the negotiated rates in the Hongkong Post 2014-2015 Agreement would improve the net financial position of the Postal Service. This conclusion follows from replacing the negotiated rates in the financial model with the calendar year (CY) 2014 UPU terminal dues rates for new target system countries that would otherwise be applicable to inbound letterpost from Hongkong in the absence of the instant Agreement. With this change, the results of the financial model indicate that the negotiated rates generate additional contribution (*i.e.*, a smaller negative contribution) to the Postal Service than would the applicable UPU terminal dues rates.⁶

Functional Equivalence. The Postal Service states that although the Hongkong Post 2014-2015 Agreement is functionally equivalent to its predecessor Agreement, there are also differences between the instant Agreement and its predecessor. *Id.* at 8. Based upon a comparison of the instant Agreement with the terms of the Hongkong Post 2013 Agreement, the Postal Service identifies “only a few minor differences,” the most significant difference, as noted above, is that the instant agreement only provides rates for inbound small packets with delivery scanning and no longer provides negotiated rates for inbound registered mail as was the case with its predecessor.

The Postal Service “does not consider that the specified differences . . . affect either the fundamental service the Postal Service is offering or the fundamental structure of the contracts.” *Id.* at 9. The Public Representative concludes that these differences do not affect the similarity of the cost characteristics between the two agreements. Therefore, the Public Representative considers the instant Agreement to be functionally equivalent to the Hongkong Post 2013 Agreement.

⁶ The Postal Service’s lack of an affirmative showing of an increased net benefit to it as a result of the negotiated rates contained in the agreement was discussed at some length in PRC Order No. 1931 (December 30, 2013).

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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